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SUBJECT: UKRAINE'S KREMENCHUK: NOT YOUR TYPICAL POST-SOVIET, INDUSTRIAL EYESORE

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¶1. Summary: Kremenchuk, an industrial city of 232,000 in central Ukraine, is home to several thriving enterprises. A visit to a local meat plant revealed a company transforming itself from a post-Soviet mess to a modern, competitive facility. The city administration is focused on a series of major infrastructure projects, and desperately wants to build a new bridge to link the city's two parts. The city also boasts an active civil society; we were particularly impressed with a local youth group. Econoff found that Kremenchuk, whose economy is growing thanks to a diverse group of medium-sized enterprises, was a counterpoint to the negative stereotypes of Ukraine's industrial regions. End Summary.

¶2. Econ Officer and Assistant visited the city of Kremenchuk April 26-27 to attend the tenth annual trade show "Chumatskiy Shliakh," the city's largest showcase of local producers. The annual event is organized by an NGO headed by a recent participant in an International Visitors Program focusing on investment promotion.

Kremenchuk Background

¶3. Kremenchuk, located in central Ukraine on the banks of the Dnieper River, is a city of only 232,000 inhabitants, but is nonetheless the industrial center of Poltava Oblast. The city dates to 1571, when Polish King Sigismund II decided to build a fortress at the site to protect the region from Cossack and Tatar intrusion. Over time, Kremenchuk developed as a commercial center thanks to its location at the crossroads of two trade routes. Today the city is home to a number of successful enterprises, including the Ukratnafta oil refinery and the large truck producer AutoKraZ. The stock of foreign direct investment (FDI) into Kremenchuk stood at USD 148 million as of January 1, with 72 percent coming from Russia and 17.4 percent from the Netherlands.

Thriving Medium-Sized Enterprises

¶4. Atypical for an industrial city in Ukraine, Kremenchuk boasts an attractive, green center. Kremenchuk also differs from the norm in that it is no longer a "company town" with a single firm dominating the local economy, although the refinery now owned by Ukratnafta may have at one time played that role. The local service sector

appears to have taken off, and a number of successful, medium-seized enterprises, active in a diverse range of economic activities, are driving the city's economic growth.

15. The Ukrtatnafta oil refinery, one of the country's largest, is nonetheless still central to the local economy. It combines oil extraction, processing, and retail sales under one roof. The refinery has not operated at full capacity since the early 1990s, however. Part of the refinery's problems probably lie in the overcapacity and market conditions that hamper all Ukraine's refineries, but local observers noted this may be abetted in Kremenchuk's case due to an ongoing dispute among its owners: the government of Ukraine, the government of Tatarstan in Russia, and private investors. (Note: Company infighting continues despite press reports back in 2004 that the dispute had been resolved. Ukrtatnafta management declined Econoff's request for a meeting to discuss the current situation. End Note.)

16. Local meat producer Kremenchukmiaso in many ways symbolizes the city's successful economic transition. Kremenchukmiaso struggled to survive the national economic collapse of the 1990s, but a bankruptcy ruling in 1998, followed by an injection of financing from a Kyiv bank, paved the way for the company's rehabilitation. It now produces nearly 200 different meat products, and, largely thanks to the successful branding of its popular "Doctor" sausages, has captured 5 percent of Ukraine's market for meats. The company also exports to Georgia and Russia. During a tour of the facility, Econoff found the top two floors of the main plant facility impeccably clean and modern, complete with German-produced equipment. The ground floor, meanwhile, with crumbling flooring and blood-stained walls, looked like something from Upton Sinclair. Irina Drozdova, Deputy Director of Kremenchukmiaso, told us

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that the company had so far managed to renovate and upgrade 70 percent of the plant. The physical plant, therefore, served as a visual metaphor for the firm's progress to date, and its potential for growth.

City Priority #1 - A New Bridge

17. Deputy Mayor Volodymyr Onyschenko and other city officials briefed foreign businessmen and diplomats on the city's economic development. The city, he said, was seeking financing for a series of major infrastructure projects, from a waste management facility to a new, environmentally-friendly city district. All city officials agreed, however, that most important for Kremenchuk was the construction of a new bridge over the Dnieper river to link the city's left and right banks. The current bridge was frequently unusable due to structural deficiencies, slowing transportation between the two halves of the city and creating uncertainty for local businesses. A group of Slovak investors present at the conference expressed interest in the project. Econoff noted that the Millennium Challenge Corporation's (MCC) compact program could be used for infrastructure projects that would alleviate poverty through economic growth. He encouraged Kremenchuk to contact Ukraine's MCC points of contact to discuss the city's priorities.

Active Youth NGO

18. Local government officials boasted of the city's active civil society and included representatives of youth organizations in their briefing. Econoff met both with Maksim Levchuk, a graduate student who doubles as a member of the oblast council, and with a group of about 20 members of the Kremenchuk Youth Parliament. The young men and

women, including high school seniors and college students, displayed an impressive degree of community engagement. The group is active in areas as diverse as protecting the environment, aiding the local prison population, and promoting women's rights (by founding a local soccer team for women, who are often denied a chance to play given Ukraine's patriarchal view of the sporting world).

Comment: A Different View of the Regions

19. The attractive and relatively prosperous city of Kremenchuk offers an interesting look into the economy of one of Ukraine's regions, which outsiders usually view through the prism of preconceived notions of East vs. West, or industrial vs. agricultural. Kremenchuk is benefiting from a diversified economy, with medium-sized enterprises leading the way, and an apparently healthy civil society. The city is still poor by European standards, of course, but from what we saw in our visit, appears to be headed in the right direction.

TAYLOR